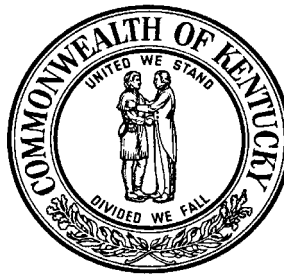


**REPORT OF THE AUDIT OF THE  
MARION COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**April 18, 2003**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Hourigan, Marion County Judge/Executive  
Honorable Carroll Kirkland, Marion County Sheriff  
Members of the Marion County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Marion County Sheriff's Settlement - 2002 Taxes as of April 18, 2003

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Marion County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure







**Kapp & Company, PLLC**

Certified Public Accountants &  
Business Advisors

**REPORT OF THE AUDIT OF THE  
MARION COUNTY  
SHERIFF'S SETTLEMENT - 2002 Taxes**

**April 18, 2003**

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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MARION COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**April 18, 2003**

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Marion County Sheriff as of April 18, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$5,281,230 for the districts for 2002 taxes, retaining commissions of \$210,536 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,064,646 to the districts for 2002 Taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$403,118 To Protect Deposits
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were uninsured and under collateralized by bank securities or bonds on November 6, 2002, by \$403,118.



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**Kapp & Company, PLLC**  
Certified Public Accountants &  
Business Advisors

To the People of Kentucky

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Gordon C. Duke, Secretary

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Honorable David Hourigan, Marion County Judge/Executive

Honorable Carroll Kirkland, Marion County Sheriff

Members of the Marion County Fiscal Court

Independent Auditor's Report

We have audited the Marion County Sheriff's Settlement - 2002 Taxes as of April 18, 2003. This tax settlement is the responsibility of the Marion County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marion County Sheriff's taxes charged, credited, and paid as of April 18, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable David Hourigan, Marion County Judge/Executive

Honorable Carroll Kirkland, Marion County Sheriff

Members of the Marion County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$403,118 To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -  
September 26, 2003

MARION COUNTY  
CARROLL KIRKLAND, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

April 18, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 449,713	\$ 508,055	\$ 2,570,659	\$ 821,458
Tangible Personal Property	44,128	44,614	182,989	306,857
Intangible Personal Property				118,353
Fire Protection	1,160			
Increases Through Exonerations	392	442	2,231	2,404
Franchise Corporation	52,157	53,604	229,373	
Limestone, Sand, and Mineral Reserves	82	93	469	150
Bank Franchises	57,622			
Penalties	2,515	2,819	14,219	4,722
Adjusted to Sheriff's Receipt	(87)	(103)	(495)	(184)
Gross Chargeable to Sheriff	<u>\$ 607,682</u>	<u>\$ 609,524</u>	<u>\$ 2,999,445</u>	<u>\$ 1,253,760</u>
<u>Credits</u>				
Exonerations	\$ 2,138	\$ 2,411	\$ 12,161	\$ 14,487
Discounts	8,932	8,641	42,659	19,440
Delinquents:				
Real Estate	7,118	8,042	40,690	13,804
Tangible Personal Property	127	110	452	331
Intangible Personal Property				58
Uncollected Franchise	<u>1,173</u>	<u>1,185</u>	<u>5,222</u>	
Total Credits	<u>\$ 19,488</u>	<u>\$ 20,389</u>	<u>\$ 101,184</u>	<u>\$ 48,120</u>
Taxes Collected	\$ 588,194	\$ 589,135	\$ 2,898,261	\$ 1,205,640
Less: Commissions *	<u>25,286</u>	<u>25,038</u>	<u>108,685</u>	<u>51,527</u>
Taxes Due	\$ 562,908	\$ 564,097	\$ 2,789,576	\$ 1,154,113
Taxes Paid	562,292	563,418	2,786,157	1,152,780
Refunds (Current and Prior Year)	<u>616</u>	<u>679</u>	<u>3,419</u>	<u>1,333</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>

\* See Page 4.

The accompanying notes are an integral part of this financial statement.

MARION COUNTY  
CARROLL KIRKLAND, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
April 18, 2003  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,372,969
3.75% on	\$	2,898,261

MARION COUNTY  
NOTES TO FINANCIAL STATEMENTS

April 18, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$403,118 of public funds uninsured and unsecured.

MARION COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 18, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 6, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	3,500,000
Uncollateralized and uninsured	<u>403,118</u>
Total	<u><u>\$ 4,003,118</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2002 through April 18, 2003.

Note 4. Interest Income

The Marion County Sheriff earned \$4,188 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of September 26, 2003, the Sheriff owes \$73 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Marion County Sheriff collected \$18,092 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Marion County Sheriff collected \$531 of advertising costs and \$2,015 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

## COMMENTS AND RECOMMENDATIONS



MARION COUNTY  
CARROLL KIRKLAND, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 18, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$403,118 To Protect Deposits

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On November 6, 2002, \$403,118 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response:*

*The Sheriff had no response to this comment.*

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

*County Sheriff's Response:*

*The Sheriff had no response to this comment.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**Kapp & Company, PLLC**

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Honorable Carroll Kirkland, Marion County Sheriff

Members of the Marion County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marion County Sheriff's Settlement - 2002 Taxes as of April 18, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marion County Sheriff's Settlement - 2002 Taxes as of April 18, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$403,118 To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marion County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -  
September 26, 2003

